

Message Text

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PAGE 01 REYKJA 00170 131628Z

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 DODE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 EA-10 FRB-01 INR-07 IO-10 NEA-09

NSAE-00 OPIC-06 SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01

OMB-01 AGR-10 XMB-04 NSC-05 SS-15 STR-04 SAJ-01 SAM-01

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R 131440Z FEB 75

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC PRIORITY 5166

INFO USMISSION EC BRUSSELS

AMEMBASSY PARIS

COMICEDEFOR

USMISSION NATO

CINCLANT

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION OECD PARIS

UNCLAS REYKJAVIK 0170

PARIS FOR RFC

E.O. 11652: N/A

TAGS: ECON IC

SUBJECT: PRIME MINISTER PROPOSES ECONOMIC MEASURES AS ICELAND
DEVALUES

1. SHORTLY AFTER THE CENTRAL BANK CHAIRMAN ANNOUNCED A 20 PER
CENT DEVALUATION ON FEBRUARY 12, THE PRIME MINISTER PRESENTED
TO THE ALTHING HIS PROGRAM FOR ICELAND'S ECONOMIC RECOVERY.
THE MEASURES APART FROM DEVALUATION AND A NEW FISH PRICE STRUCTURE
INCLUDE: (1) A BILL FOR ALLOCATING EXCHANGE WINDFALL TO LIGHTEN
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PAGE 02 REYKJA 00170 131628Z

BURDEN OF FOREIGN COST INCREASE TO FISHING FLEET AND TO PROVIDE

75 MILLION KRONUR FOR FISHERMEN PENSION FUND; (2) EFFORTS TO SOLVE PROBLEM OF REVENUE ALLOCATION IN FISHERIES SECTOR BY BETTER SYSTEM TO FINANCE INSURANCE, OIL, AS WELL AS COSTS OF FOREIGN LOANS AND PRODUCTS -- AFTER THE LOT OF THE SEAMEN THEMSELVES HAS BEEN TAKEN CARE OF; (3) A REVIEW OF WAGE INDEXING SYSTEM AFTER WHICH THE GOVERNMENT WILL PROPOSE A CHANGE IN THE SYSTEM; (4) A REVIEW OF WAGE COMPENSATION AIMED AT MAKING IT EASIER FOR THE LOWEST PAID TO WITHSTAND INCREASING COST OF LIVING; (5) SOCIAL SECURITY BENEFITS FOR THOSE WITH LITTLE OR NO INCOME WILL BE REVIEWED; (6) A REVIEW OF THE AGRICULTURE PRICE SYSTEM AS WELL AS THE GENERAL PRICE SYSTEM; (7) SPONSORSHIP BY THE GOVERNMENT OF A DECREASE IN LOANS PLANNED BY THE INVESTMENT FUNDS AND A CUT IN GOVERNMENT EXPENDITURES.

2. INFORMAL REPORTS INDICATE THAT THE GOVERNMENT EXPECTS EARLY APPROVAL OF ITS PROGRAM. MEANWHILE THE CENTRAL BANK CONTINUES THE SUSPENSION OF FOREIGN EXCHANGE TRADING BUT IS EXPECTED TO REOPEN FEBRUARY 14.

3. NORDAL, CENTRAL BANK HEAD, SAID THAT THE DEVALUATION WAS NECESSARY TO PROTECT RESERVES AND TO AVOID UNEMPLOYMENT. HE NOTED THAT ABOUT 1/3 OF THE DEVALUATION WILL ENTER THE PRICE SYSTEM, RAISING PRICES ABOUT 7 PER CENT. HE CONFIRMED THE PROJECTION OF A BALANCE OF TRADE DEFICIT OF 15 TO 17 BILLION KRONUR, OFFSET BY CAPITAL INFLOWS OF 9-10 BILLION. THE DIFFERENCE HE SAID WOULD COME FROM INCREASED BORROWING OR FROM USING RESERVES, WHICH HE SAID THEY DO NOT NOW HAVE. HE DID NOT SEE THE LIKELIHOOD OF ANOTHER DEVALUATION IN THE FORESEEABLE FUTURE (BY WHICH WE UNDERSTAND HE MEANS AT LEAST SIX MONTHS).

4. LITTLE COMMENT HAS COME OUT ON THE PRIME MINISTER'S PROPOSALS. THOSE COMING OUT ON THE DEVALUATION OFFERED NO SURPRISES, AS PERSONS WHO EARLIER OPPOSED OR SUPPORTED DEVALUATION CONTINUED TO DO SO. NO ONE CONSIDERED THE DEVALUATION ENOUGH BY ITSELF, BUT CALLED FOR FURTHER MEASURES.

5. THE NEW BUYING AND SELLING RATES FOR THE DOLLAR ARE 149.20 AND 149.60 KRONUR RESPECTIVELY.

6. EMBASSY ANALYSIS AND COMMENTS FOLLOW SEPTTEL.
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PAGE 03 REYKJA 00170 131628Z

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, FOREIGN EXCHANGE RATES, FOREIGN INVESTMENTS, GOVERNMENT EXPENDITURES
Control Number: n/a
Copy: SINGLE
Draft Date: 13 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975REYKJA00170
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750052-1081
From: REYKJAVIK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750246/aaaaboxj.tel
Line Count: 108
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 01 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 MAY 2003 by RuthemTJ>; APPROVED <20 JAN 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER PROPOSES ECONOMIC MEASURES AS ICELAND DEVALUES
TAGS: ECON, IC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006